

MENDON CITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2005

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
Mendon City
Mendon, Utah

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mendon City, Utah (the City) as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* I have also issued a report dated December 30, 2005, on my consideration of the City's internal control over financial reporting and over tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an

audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 9 and on page 32, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining fund information and the additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining fund information and the additional information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The supplemental water and insurance information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on it.

MATTHEW REGEN, CPA, PC

Matthew Regen, CPA, PC

December 30, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Mendon City (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- The total net assets (government and business-type activities) of the City increased during fiscal year 2005 by \$172,872 to a total of \$1,626,843. The governmental net assets increased by \$98,599 and the business-type net assets increased by \$74,273.
- The total net assets (government and business-type activities) of the City consist of \$1,145,026 in capital assets, net of related debt, \$65,762 in restricted net assets and \$416,055 in unrestricted net assets.
- The total long-term liabilities of the City were reduced \$10,099 during the fiscal year 2005.

REPORTING THE CITY AS A WHOLE

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

- *The statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. However, there will also be a need to consider other non-financial factors.
- *The statement of activities* presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are

intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, parks and recreation, and public works. The business-type activities of the City include the water utility. The government-wide financial statements can be found on pages 11 and 12 of this report.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- **Governmental funds** - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the city's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The only major governmental funds (as determined by generally accepted accounting principles) are the General Fund and the Capital Projects Fund. The City has two non-major funds used to account for the activity of the City's Municipal Building Authority (a blended component unit) and the perpetual care of the cemetery.

- **Proprietary funds** - The City maintains only one proprietary fund, an enterprise fund, to account for its culinary water utility operations. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. As determined by generally accepted accounting principles, the Water Fund meets the criteria for major fund classification.
- **Fiduciary funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The City currently has no fiduciary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$1,626,843.

By far, the largest portion of the City's net assets (70 percent) reflect its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less depreciation and any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following schedules present summarized information from the Statement of Net Assets and the Statement of Activities.

STATEMENT OF NET ASSETS

	Governmental <u>Activities</u>	Business-type <u>Activities</u>
Current and other assets	\$ 398,667	\$ 165,859
Capital assets	<u>805,703</u>	<u>624,718</u>
Total assets	<u>1,204,370</u>	<u>790,577</u>
Current liabilities	77,517	15,765
Noncurrent liabilities	<u>211,250</u>	<u>63,572</u>
Total liabilities	<u>288,767</u>	<u>79,337</u>
Invested in capital assets, net of debt	592,233	552,793
Restricted	33,874	11,760
Unrestricted	<u>289,496</u>	<u>146,687</u>
Total net assets	\$ <u>915,603</u>	\$ <u>711,240</u>

CHANGES IN NET ASSETS

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Revenues:		
Program revenues:		
Charges for services	\$ 116,792	\$ 161,459
Operating grants	115,029	-
General revenues:		
Property taxes	74,656	-
Sales and use taxes	75,882	-
Franchise taxes	3,382	-
Other revenues	8,457	1,581
	<hr/>	<hr/>
Total revenues	394,198	163,040
Expenses:		
General government	72,882	-
Public safety	44,526	-
Streets and public improvements	133,435	-
Parks and recreation	34,562	-
Interest on long-term debt	10,194	-
Water	-	88,767
	<hr/>	<hr/>
Total expenses	295,599	88,767
	<hr/>	<hr/>
Excess (deficiency) before transfers	98,599	74,273
Transfers	-	-
	<hr/>	<hr/>
Change in net assets	98,599	74,273
Net assets – beginning (07-01-04)	817,004	636,967
	<hr/>	<hr/>
Net assets – ending (06-30-05)	\$ 915,603	\$ 711,240
	<hr/>	<hr/>

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The financial reporting focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information may be useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$323,370, an increase of \$12,899 in comparison with the prior year. Of this total amount \$269,368 constitutes unreserved fund balance, which is available to meet the future financial needs of the City. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for the perpetual care of the cemetery, road maintenance and law enforcement.

The General Fund is the chief operating fund of the City. All activities which are not required to be accounted for in separate funds either by state or local ordinance or by a desire to maintain a matching of revenues and expenses are accounted for in this fund.

Taxes continue to be the largest source of revenue in the General Fund and represent 44 percent of total general fund revenues. The two largest elements of taxes are sales taxes and property taxes. Combined they represent 98 percent of total tax revenues and 43 percent of total general fund revenues.

The City maintains an enterprise fund to account for the business-type activities of the City. The separate fund statements included in this report provide the same information for business-type activities as is provided in the government-wide financial statements. However, the difference is that the fund statements provide much more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the current fiscal year the General Fund budget for revenues was \$321,000. The actual revenue was \$349,091. This resulted in a favorable variance of \$28,091 for revenue. The General Fund budget for expenditures was \$308,688. The actual expenditures were \$250,821. This resulted in a favorable variance for \$57,867 for expenditures. Overall, the City had a favorable variance for the excess of revenues over expenditures of \$85,958.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets - The City's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounts to \$1,430,421 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, machinery and equipment, park facilities, roads and infrastructure (streets, sidewalks, curb and gutter, etc.). The increase in the City's investment in capital assets for the current fiscal year was \$157,660 and depreciation expense was \$58,194.

Major capital assets purchased during the fiscal year included the following:

- \$48,888 for playground equipment.
- \$45,468 for restoration of the Mendon Station.
- \$39,494 for a water study and engineering.
- \$16,389 for fire department equipment.

Additional information on the City's capital assets can be found in the footnotes to this financial report.

Long-term debt – At June 30, 2005, the City had total bonded debt outstanding of \$285,395 which consists of \$71,925 in revenue bonds used to improve the water system and \$213,470 of general obligation debt used to build the City's fire hall.

Additional information on the outstanding debt obligations of the City can be found in the footnotes to this financial report.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Mendon City, 95 North Main, P.O. Box 70, Mendon, Utah, 84325.

BASIC FINANCIAL STATEMENTS

MENDON CITY
STATEMENT OF NET ASSETS
JUNE 30, 2005

<u>Assets</u>	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Pooled cash and cash equivalents	\$ 286,456	121,687	408,143
Receivables, net	112,211	44,172	156,383
Fixed assets, net	805,703	624,718	1,430,421
Total assets	1,204,370	790,577	1,994,947
<u>Liabilities</u>			
Liabilities:			
Accounts payable and accrued expenses	16,688	7,412	24,100
Deferred revenue	58,609	-	58,609
Noncurrent liabilities:			
Due within one year	2,220	8,353	10,573
Due in more than one year	211,250	63,572	274,822
Total liabilities	288,767	79,337	368,104
<u>Net Assets</u>			
Investments in capital assets, net of related debt	592,233	552,793	1,145,026
Restricted	54,002	11,760	65,762
Unrestricted	269,368	146,687	416,055
Total net assets	\$ 915,603	711,240	1,626,843

The accompanying notes are an integral part of these financial statements.

MENDON CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental:							
General government	\$ 72,882	45,520	-	-	(27,362)	-	(27,362)
Public safety	44,526	16,396	11,413	-	(16,717)	-	(16,717)
Streets and public improvements	98,851	44,733	45,257	-	(8,861)	-	(8,861)
Parks and recreation	34,562	7,543	58,359	-	31,340	-	31,340
Cemetery	34,584	2,600	-	-	(31,984)	-	(31,984)
Interest on long-term debt	10,194	-	-	-	(10,194)	-	(10,194)
Total governmental activities	295,599	116,792	115,029	-	(63,778)	-	(63,778)
Business-type activities:							
Water fund	88,767	161,459	-	-	-	72,692	72,692
Total business-type activities	88,767	161,459	-	-	-	72,692	72,692
Total primary government	\$ 384,366	278,251	115,029	-	(63,778)	72,692	8,914
General revenues:							
Taxes:							
Sales and use tax					75,882	-	75,882
Property tax					74,656	-	74,656
Franchise & other taxes					3,382	-	3,382
Total taxes					153,920	-	153,920
Interest income					8,457	1,581	10,038
Total general revenues and transfers					162,377	1,581	163,958
Change in net assets					98,599	74,273	172,872
Net assets - beginning					817,004	636,967	1,453,971
Net assets - ending				\$	915,603	711,240	1,626,843

The accompanying notes are an integral part of these financial statements.

**MENDON CITY
BALANCE SHEET -
GOVERNMENTAL FUNDS
JUNE 30, 2005**

<u>Assets</u>	<u>General</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Pooled cash and cash equivalents	\$ 112,993	133,582	39,881	286,456
Receivables, net	<u>112,211</u>	<u>-</u>	<u>-</u>	<u>112,211</u>
Total assets	<u>225,204</u>	<u>133,582</u>	<u>39,881</u>	<u>398,667</u>
<u>Liabilities and Fund Equities</u>				
Liabilities:				
Accounts payable	16,688	-	-	16,688
Deferred revenue	<u>58,609</u>	<u>-</u>	<u>-</u>	<u>58,609</u>
Total liabilities	<u>75,297</u>	<u>-</u>	<u>-</u>	<u>75,297</u>
Fund equity:				
Fund balances				
Reserved	19,628	-	34,374	54,002
Unreserved - undesignated	<u>130,279</u>	<u>133,582</u>	<u>5,507</u>	<u>269,368</u>
Total fund equity	<u>149,907</u>	<u>133,582</u>	<u>39,881</u>	<u>323,370</u>
Total liabilities and fund equity	\$ <u>225,204</u>	<u>133,582</u>	<u>39,881</u>	<u>398,667</u>

The accompanying notes are an integral part of these financial statements.

MENDON CITY
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005

Total fund balances for governmental funds \$ 323,370

Net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land	\$	47,083	
Buildings and improvements		676,197	
Machinery and equipment		205,248	
Infrastructure		26,981	
Accumulated depreciation		<u>(149,806)</u>	805,703

Long-term liabilities and related accrued interest are not due and payable in the current period and, therefore, are not reported in the funds. (213,470)

Net assets of governmental activities \$ 915,603

The accompanying notes are an integral part of these financial statements.

MENDON CITY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	General	Capital Projects Fund	Nonmajor Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 152,864	-	-	152,864
Licenses	38,365	-	-	38,365
Intergovernmental	53,980	36,251	-	90,231
Charges for services	66,969	-	500	67,469
Fines and forfeitures	3,342	-	-	3,342
Miscellaneous revenues	33,571	8,298	57	41,926
Total revenues	349,091	44,549	557	394,197
Expenditures:				
General government	78,351	-	12,312	90,663
Public safety	47,408	18,779	-	66,187
Streets and public improvements	85,220	50,498	-	135,718
Parks and recreation	39,842	48,888	-	88,730
Total expenditures	250,821	118,165	12,312	381,298
Excess (deficiency) of revenues over expenditures	98,270	(73,616)	(11,755)	12,899
Other financing sources (uses):				
Transfers in	-	-	12,312	12,312
Transfers out	(12,312)	-	-	(12,312)
Total other financing uses	(12,312)	-	12,312	-
Excess (deficiency) of revenues and other financing uses over expenditures and other financing uses	85,958	(73,616)	557	12,899
Fund balance - beginning of year	63,949	207,198	39,324	310,471
Fund balance - end of year	\$ 149,907	133,582	39,881	323,370

The accompanying notes are an integral part of these financial statements.

MENDON CITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Net change in fund balance - Total governmental funds	\$	12,899
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Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

This is the amount by which capital outlays of \$118,165 exceeded depreciation expense of \$34,584 in the current year.

83,581

Long-term debt proceeds provides current financial resources to governmental funds by issuing debt which increases long-term liabilities in the Statement of Net Assets. Repayment of long-term debt principal are expenditures in the governmental funds:

Payment of long-term debt principal		2,119
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Changes in net assets of governmental activities	\$	98,599
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The accompanying notes are an integral part of these financial statements.

MENDON CITY
STATEMENT OF NET ASSETS -
PROPRIETARY FUND
JUNE 30, 2005

<u>Assets</u>	<u>Water Fund</u>	<u>Total Business- Type Activities</u>
Pooled cash and cash equivalents	\$ 121,687	121,687
Receivables, net	44,172	44,172
Fixed assets, net	<u>624,718</u>	<u>624,718</u>
Total assets	<u>790,577</u>	<u>790,577</u>
<u>Liabilities</u>		
Accounts payable	7,412	7,412
Noncurrent liabilities:		
Due within one year	8,353	8,353
Due in more than one year	<u>63,572</u>	<u>63,572</u>
Total liabilities	<u>79,337</u>	<u>79,337</u>
<u>Net Assets</u>		
Invesments in capital assets, net of related debt	552,793	552,793
Restricted:		
Bond requirements	11,760	11,760
Unrestricted	<u>146,687</u>	<u>146,687</u>
Total net assets	<u>\$ 711,240</u>	<u>711,240</u>

The accompanying notes are an integral part of these financial statements.

MENDON CITY
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS -
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Water Fund</u>	<u>Total Business- Type Activities</u>
Operating revenues:		
Services	\$ 123,459	123,459
Connection fees	<u>38,000</u>	<u>38,000</u>
Total operating revenues	<u>161,459</u>	<u>161,459</u>
Operating expenses:		
Salaries and benefits	11,428	11,428
Current expenses	49,950	49,950
Depreciation	<u>23,610</u>	<u>23,610</u>
Total operating expense	<u>84,988</u>	<u>84,988</u>
Operating income	76,471	76,471
Non-operating income (expense):		
Interest income	1,581	1,581
Interest expense	<u>(3,779)</u>	<u>(3,779)</u>
Total non-operating income (expense)	<u>(2,198)</u>	<u>(2,198)</u>
Net income	74,273	74,273
Net assets - beginning of year	<u>636,967</u>	<u>636,967</u>
Net assets - end of year	\$ <u><u>711,240</u></u>	<u><u>711,240</u></u>

The accompanying notes are an integral part of these financial statements.

MENDON CITY
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Water Fund	Total Business- Type Activities
<u>Cash flows from operating activities:</u>		
Receipts from customers and users	\$ 151,016	151,016
Payments to suppliers	(51,351)	(51,351)
Payments to employees	(11,428)	(11,428)
	<u>88,237</u>	<u>88,237</u>
Net cash provided by operating activities		
<u>Cash flows from non-capital financing activities</u>	-	-
<u>Cash flows from capital and related financing activities:</u>		
Purchases of capital assets	(39,494)	(39,494)
Principal payments on bonds	(7,981)	(7,981)
Interest payments on bonds	(3,779)	(3,779)
	<u>(51,254)</u>	<u>(51,254)</u>
Net cash used in capital and related financing activities		
<u>Cash flows from investing activities:</u>		
Interest on investments	1,581	1,581
	<u>1,581</u>	<u>1,581</u>
Net cash provided by investing activities		
Net increase in cash and cash equivalents	38,564	38,564
Cash and cash equivalents at beginning of year	83,123	83,123
Cash and cash equivalent at end of year	\$ <u>121,687</u>	<u>121,687</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 76,471	76,471
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	23,610	23,610
Change in assets and liabilities:		
Increase in accounts receivable	(10,443)	(10,443)
Decrease in accounts payable	(1,401)	(1,401)
	<u>11,766</u>	<u>11,766</u>
Total adjustments		
Net cash provided by operating activities	\$ <u>88,237</u>	<u>88,237</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The City of Mendon (the City) was incorporated in 1883 under the laws of the state of Utah. The City operates by ordinance under the Mayor-Council form of government and provides such services as are authorized by its charter including public safety (police and fire), highway and streets, sanitation, recreation, public improvements, planning and zoning, and general administration. In addition, the City owns and operates a water utility.

Private sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989, for its business-type activities.

The accounting and reporting policies of the City relating to the accompanying financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued prior to December 1, 1989, which do not conflict with or contradict GASB pronouncements. The City has elected not to follow FASB pronouncements issued after November 30, 1989 in the preparation of these financial statements. The following represents the more significant accounting and reporting policies and practices used in the preparation of these financial statements:

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City and its component units. The interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely significantly on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity; and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Note 1 – Summary of Significant Accounting Policies (continued)

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The City applies expenses for restricted resources first when both restricted and unrestricted net assets are available.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recognized only when payment is due.

Property taxes, state-shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental fund:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary fund:

The Water Utility accounts for the activities of the City's water production, treatment, and distribution operations.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and

Note 1 – Summary of Significant Accounting Policies (continued)

delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$2,500 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation of all exhaustible fixed assets used is charged as an expense against the City's operations. Accumulated depreciation is reported on the financial statements. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings and improvements	10 to 40 years
Water system and equipment	7 to 40 years
Machinery and equipment	5 to 10 years
Infrastructure	25 years

GASB Statement No. 34 requires the City to report infrastructure assets beginning on July 1, 2003 with the option of reporting its pre-existing infrastructure assets retroactively. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), etc. The City elected not to report its infrastructure assets retroactively.

In the governmental fund financial statements, the acquisition or construction of capital assets is accounted for as capital outlay expenditures.

Deferred Revenues

In the government-wide statements and the proprietary fund statements, deferred revenue is recognized when cash or other assets are received or recognized prior to being earned. In the governmental fund statements, deferred revenue is recognized when revenue is either unearned or unavailable.

Note 1 – Summary of Significant Accounting Policies (continued)

Long-term Debt

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government wide financial statements. The long-term debt consists primarily of bonds payable.

Long-term debt for the governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payments or principle and interest reported as expenditures. The accounting for proprietary fund long-term debt is the same as in the fund statements as in the government-wide statements.

Equity Classifications

Equity in the government-wide financial statements is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction or improvement of these assets.
- Restricted net assets – Consists of net assets with constraints placed on the usage whether by 1) external groups such as creditors, grantors or laws and regulations of other governments; 2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Governmental fund equity is classified as fund balance in the fund financial statements. Fund balance is further classified as reserved and unreserved. Proprietary fund equity is classified the same as in the government-wide financial statements.

Property Taxes

Cache County assesses all taxable property other than centrally-assessed property, which is assessed through the state, by May 22 of each year. The City must adopt a final tax rate prior to June 22, which is then submitted to the State for approval. Property taxes are due on November 30. Delinquent taxes are subject to a penalty of 2% for \$10.00, whichever is greater. After January 16 of the following year, delinquent taxes and penalties bear interest at 6% above the federal discount rate from January 1 until paid.

Note 1 – Summary of Significant Accounting Policies (continued)

Property tax revenues are recognized when they become measurable and available. Amounts available include those property tax receivables expected to be collected within 60 days after year end.

Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual budgets are adopted for governmental and proprietary fund types. Encumbrance accounting is not employed by the City in its governmental funds, therefore all annual appropriations lapse at fiscal year end. Project-length financial plans are adopted for all capital project funds.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the Statement of Net Assets, the term “cash and cash equivalents” includes all demand deposit accounts, savings accounts, or other short-term, highly-liquid investments. For the purposes of the Statement of Cash Flows, the enterprise funds consider all highly liquid investments (including restricted assets) with original maturities of three months or less to be cash equivalents.

Note 2 – Legal Compliance – Budgets

On or before the first scheduled city council meeting in May, all agencies of the City submit requests for appropriation to the City’s financial officer so that a budget may be prepared. The budget is prepared by fund, function, and activity, and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year.

The proposed budget is presented to the city council for review at the first scheduled meeting in May. The city council holds public hearings and may add to, subtract from, or change appropriations, but may not change the form of the budget. Any changes to the budget must be within the revenues and reserves estimated as available by the city financial officer or the revenue estimates must be changes by an affirmative vote of a majority of the city council. Within 30 days of adoption, the final budget must be submitted to the State Auditor. If there is no increase to the certified tax rate, a final tax rate is adopted by June 22 and adoption of budgets is done similarly.

Note 2 – Legal Compliance – Budgets (continued)

State statute requires that city officers shall not make or incur expenditures or encumbrances in excess of total appropriations for any department in the budget as adopted or subsequently amended.

Note 3 – Cash

The City follows the requirements for the Utah Money Management Act (Utah Code Annotated 1953, Section 541, Chapter 7) in handling its depository and temporary investment transactions. This law requires the depositing of City funds in a “qualified depository”. The Act defines a “qualified depository” as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Utah Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The Money Management Act also defines the types of securities allowed as appropriate temporary investments for the City and the conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

At June 30, 2005, the City’s pooled cash and cash equivalents included the following:

Pooled cash and equivalents:

Demand deposit accounts	\$	37,892
Investments in State Treasurer’s Investment Pool		<u>370,251</u>
Total pooled cash and cash equivalents	\$	<u>408,143</u>

At June 30, 2005, the carrying amount per the books of the City’s demand deposits was \$37,892 and the bank balance was \$40,293. Of the bank balance, \$40,293 was covered by federal depository insurance (FDIC).

The City’s other pooled cash equivalents are held in the State of Utah’s investment pool at June 30, 2005. The interest rate paid on the State Treasurer’s investment pool during the 2004-2005 fiscal year varied from 1.7032 % to 3.1816 %. The “pool” is a convenient deposit-type investment administered by the State Treasurer’s Office and offers daily liquidity. Pool deposits are primarily invested in short-term investment securities, including time certificates of deposit and treasury bills, all of which comply with the Money Management Act.

Note 4 – Receivables

The City has property and sales taxes, accounts receivable and receivables due from other governments as of June 30, 2005 as follows:

General Fund:

Taxes:

Property taxes	\$ 61,179
Sales taxes	<u>28,146</u>

Total taxes receivable	<u>89,325</u>
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Accounts:

Garbage	12,061
911 fees	<u>2,015</u>

Total accounts receivable	<u>14,076</u>
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Due from other governments:

Class "C" roads – State of Utah	<u>8,810</u>
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Total receivables	\$ <u>112,211</u>
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Water Fund:

Accounts:

Services and fees	\$ <u>44,172</u>
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Note 5 – Capital Assets

Capital asset changes occurring for the year ended June 30, 2005, are as follows:

	July 1, 2004	Additions	Deletions	June 30, 2005
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 47,083	-	-	47,083
Total capital assets not being depreciated	47,083	-	-	47,083
Capital assets being depreciated:				
Buildings and improvements	623,308	52,889		676,197
Equipment	139,197	65,277		205,248
Infrastructure	26,981	-	-	26,981
Total capital assets being depreciated	790,260	118,166	-	908,426
Accumulated depreciation for:				
Buildings	(97,328)	(21,654)		(118,982)
Equipment	(16,815)	(11,851)		(28,666)
Infrastructure	(1,079)	(1,079)	-	(2,158)
Total accumulated depreciation	(115,222)	(34,584)	-	(149,806)
Total capital assets being depreciated, net	675,038	83,582	-	758,620
Total governmental activities Capital assets, net	\$ 722,121	83,582	-	805,703

Depreciation expense was charged to functions of the City as follows:

General government	\$ 4,163
Public safety	15,720
Streets and public improvements	1,079
Parks and recreation	13,622
Total depreciation expense	\$ 34,584

Note 5 – Capital Assets (continued)

	<u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2005</u>
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land	\$ <u>29,387</u>	<u>-</u>	<u>-</u>	<u>29,387</u>
Total capital assets not being depreciated	<u>29,387</u>	<u>-</u>	<u>-</u>	<u>29,387</u>
Capital assets being depreciated:				
Water system	<u>892,128</u>	<u>39,494</u>		<u>931,622</u>
Equipment	<u>50,538</u>	<u>-</u>	<u>-</u>	<u>50,538</u>
Total capital assets being depreciated	<u>942,666</u>	<u>39,494</u>	<u>-</u>	<u>982,160</u>
Accumulated depreciation for:				
Water system	<u>(317,138)</u>	<u>(22,303)</u>	<u>-</u>	<u>(339,441)</u>
Equipment	<u>(46,081)</u>	<u>(1,307)</u>	<u>-</u>	<u>(47,388)</u>
Total accumulated depreciation	<u>(363,219)</u>	<u>(23,610)</u>	<u>-</u>	<u>(386,829)</u>
Total capital assets being depreciated, net	<u>579,447</u>	<u>15,884</u>	<u>-</u>	<u>595,331</u>
Total business-type activities capital assets, net	\$ <u>608,834</u>	<u>15,884</u>	<u>-</u>	<u>624,718</u>

Note 6 – Long-term Debt

Long-term liability transactions for the fiscal year ended June 30, 2005, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
Bond payable	\$ 215,588	-	(2,118)	213,470	2,220
Total governmental long-term liabilities	\$ 215,588	-	(2,118)	213,470	2,220
<u>Business-type Activities:</u>					
Bond payable	\$ 79,906	-	(7,981)	71,925	8,353
Total business-type long-term liabilities	\$ 79,906	-	(7,981)	71,925	8,353

Governmental Activities

Long-term debt for governmental activities consists of the following:

Bond payable

\$220,000 lease revenue bond to United States Department of Agriculture, payable in monthly installments of \$1,026 including interest at 4.75%. Matures on February 5, 2042. \$ 213,470

The following is a summary of the annual payments to maturity:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2006	\$ 2,220	10,092	12,312
2007	2,328	9,984	12,312
2008	2,441	9,871	12,312
2009	2,559	9,753	12,312
2010	2,684	9,628	12,312
2011-2015	15,504	46,056	61,560
2016-2020	19,641	41,919	61,560
2021-2025	24,907	36,653	61,560
2026-2030	31,569	29,991	61,560
2031-2035	40,013	21,547	61,560
2036-2040	50,716	10,844	61,560
2041-2042	18,888	5,736	24,624
Totals	\$ 213,470	242,074	455,544

Note 6 – Long-term Debt (continued)

Business-type Activities

Long-term debt for business-type activities consists of the following:

Bond Payable

\$120,028 Water Revenue Bonds, Series 2001, issued September 1, 2001. Due to General Electric Capital in monthly installments of \$980 including interest at 5%. Matures on October 1, 2012.

\$ 71,925

The following is a summary of the annual payments to maturity:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2006	\$ 8,353	3,407	11,760
2007	8,783	2,977	11,760
2008	9,233	2,527	11,760
2009	9,705	2,055	11,760
2010	10,199	1,561	11,760
2011-2012	25,652	1,582	27,234
Totals	\$ <u>71,925</u>	<u>14,109</u>	<u>86,034</u>

Note 7 – Restricted Net Assets/Reserved Fund Equity

Restricted net assets and reserved fund balances represent amounts required to be maintained to satisfy third party agreements or legal requirements. The following schedule details restricted net assets and reserved equity balances at June 30, 2005:

General Fund:

Road construction and maintenance reserve	\$ 19,318
Liquor law enforcement reserve	<u>310</u>
Total general fund reserve	\$ <u>19,628</u>

Perpetual Care Fund:

Perpetual care reserve	\$ <u>34,374</u>
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Water Fund:

Bond reserve	\$ <u>11,760</u>
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REQUIRED SUPPLEMENTARY INFORMATION

**MENDON CITY
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues:			
Taxes	\$ 140,520	152,864	12,344
Licenses and permits	37,500	38,365	865
Intergovernmental	52,500	53,980	1,480
Charges for services	67,000	66,969	(31)
Fines and forfeitures	1,600	3,342	1,742
Miscellaneous revenues	21,880	33,571	11,691
Total revenues	<u>321,000</u>	<u>349,091</u>	<u>28,091</u>
Expenditures:			
General government	68,438	78,351	(9,913)
Public safety	35,750	47,408	(11,658)
Streets and public improvements	155,000	85,220	69,780
Parks and recreation	49,500	39,842	9,658
Total expenditures	<u>308,688</u>	<u>250,821</u>	<u>57,867</u>
Excess (deficiency) of revenues over expenditures	<u>12,312</u>	<u>98,270</u>	<u>85,958</u>
Other financing sources uses:			
Transfers out:			
Municipal Building Authority	<u>(12,312)</u>	<u>(12,312)</u>	<u>-</u>
Total other financing uses	<u>(12,312)</u>	<u>(12,312)</u>	<u>-</u>
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>85,958</u>	<u>85,958</u>
Fund balance - beginning of year	\$	<u>63,949</u>	
Fund balance - end of year	\$	<u>149,907</u>	

SUPPLEMENTARY INFORMATION

**MENDON CITY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BLANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005**

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Taxes:			
General property taxes	\$ 71,720	74,656	2,936
Sales and use taxes	68,800	75,882	7,082
Franchise taxes	-	2,326	2,326
Total taxes	140,520	152,864	12,344
Licenses and permits:			
Business licenses	37,500	37,385	(115)
Non-business licenses and permits	-	980	980
Total licenses and permits	37,500	38,365	865
Intergovernmental:			
Class "C" roads	52,500	42,257	(10,243)
Fire department grant	-	11,413	11,413
Liquor allotment	-	310	310
Total intergovernmental	52,500	53,980	1,480
Charges for services:			
Sanitation	67,000	44,733	(22,267)
Fire department	-	8,541	8,541
Cemetary	-	2,100	2,100
Canal water	-	2,880	2,880
Planning and zoning	-	-	-
911 fees	-	7,545	7,545
Parks and recreation	-	1,170	1,170
Total charges for services	67,000	66,969	(31)
Fines and forfeitures	1,600	3,342	1,742
Miscellaneous revenues:			
Interest and other	-	1,034	1,034
Celebrations	-	6,373	6,373
Donations	21,880	26,164	4,284
Total miscellaneous revenues	21,880	33,571	11,691
Total revenues	321,000	349,091	28,091

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**MENDON CITY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BLANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005**

Expenditures:	Budget	Actual	Variance Favorable (Unfavorable)
General government:			
Planning and zoning	1,700	2,179	(479)
Building and grounds	9,200	13,631	(4,431)
Building inspections	-	7,743	(7,743)
Non-departmental	57,538	54,798	2,740
Total general government	68,438	78,351	(9,913)
Public safety:			
Fire protection	30,000	38,776	(8,776)
Law enforcement	5,750	5,750	-
Animal control	-	2,882	(2,882)
Total public safety	35,750	47,408	(11,658)
Streets and public improvements:			
Streets	99,000	22,939	76,061
Sanitation	56,000	62,281	(6,281)
Total streets and public improvements	155,000	85,220	69,780
Parks and recreation:			
Park/recreation programs	26,000	17,962	8,038
Celebrations	18,000	16,600	1,400
Cemetary	5,500	5,280	220
Total parks and recreation	49,500	39,842	9,658
Total expenditures	308,688	250,821	57,867

(continued)

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**MENDON CITY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BLANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Excess (deficiency) of revenues over expenditures	<u>12,312</u>	<u>98,270</u>	<u>85,958</u>
Other financing uses:			
Transfers out:			
Municipal Building Authority	<u>(12,312)</u>	<u>(12,312)</u>	<u>-</u>
Total other financing uses	<u>(12,312)</u>	<u>(12,312)</u>	<u>-</u>
Excess (deficiency) of revenues and other financing uses over expenditures	\$ <u>-</u>	<u>85,958</u>	<u>85,958</u>
Fund balance - beginning of year		<u>63,949</u>	
Fund balance - end of year	\$	<u>149,907</u>	

**MENDON CITY
CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BLANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Intergovernmental	-	36,251	36,251
Interest	\$ 2,000	8,298	6,298
Total revenues	<u>2,000</u>	<u>44,549</u>	<u>42,549</u>
Expenditures			
Capital outlays:			
Parks and recreation	47,000	48,888	(1,888)
Public safety	-	18,779	(18,779)
Roads	-	50,498	(50,498)
Total expenditures	<u>47,000</u>	<u>118,165</u>	<u>(71,165)</u>
Deficiency of revenues over expenditures	<u>(45,000)</u>	<u>(73,616)</u>	<u>(28,616)</u>
Other financing uses:			
Transfers out	-	-	-
Total other financing uses	<u>-</u>	<u>-</u>	<u>-</u>
Deficiency of revenues over expenditures and other financing uses	\$ <u><u>(45,000)</u></u>	<u>(73,616)</u>	<u><u>(28,616)</u></u>
Fund balance - beginning of year		<u>207,198</u>	
Fund balance - end of year	\$	<u><u>133,582</u></u>	

**MENDON CITY
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005**

	<u>Debt Service</u> <u>Municipal</u> <u>Building</u> <u>Authority</u>	<u>Permanent</u> <u>Cemetery</u> <u>Perpetual</u> <u>Care</u>	<u>Total Nonmajor</u> <u>Governmental</u> <u>Funds</u>
<u>Assets</u>			
Pooled cash and cash equivalents	\$ -	39,881	39,881
Total assets	\$ -	39,881	39,881
<u>Liabilities and Fund Balance</u>			
Liabilities	\$ -	-	-
Fund Balance:			
Reserved	-	34,374	34,374
Unreserved, undesignated	-	5,507	5,507
Total fund balance	-	39,881	39,881
Total liabilities and fund balance	\$ -	39,881	39,881

MENDON CITY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE -
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Debt Service</u> <u>Municipal</u> <u>Building</u> <u>Authority</u>	<u>Permanent</u> <u>Cemetery</u> <u>Perpetual</u> <u>Care</u>	<u>Total Nonmajor</u> <u>Governmental</u> <u>Funds</u>
Revenues:			
Perpetual care fees	\$ -	500	500
Miscellaneous revenues	-	57	57
Total revenues	-	557	557
Expenditures:			
Debt service	12,312	-	12,312
Total expenditures	12,312	-	12,312
Excess (deficiency) of revenues over expenditures	(12,312)	557	(11,755)
Other financing sources:			
Transfers in	12,312	-	12,312
Total other financing sources	12,312	-	12,312
Excess of revenues and other financing sources over expenditures	-	557	557
Fund balance - July 1, 2004	-	39,324	39,324
Fund balance - June 30, 2005	\$ -	39,881	39,881

**MENDON CITY
MUNICIPAL BUILDING AUTHORITY
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues	\$ -	-	-
Expenditures:			
Debt service	-	12,312	12,312
Total expenditures	-	12,312	12,312
Deficiency of revenues over expenditures	-	(12,312)	(12,312)
Other financing sources:			
Transfer in	-	12,312	12,312
Total other financing sources	-	12,312	12,312
Excess of revenues over expenditures and other financing sources	\$ -	-	-

**MENDON CITY
PERPETUAL CARE FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Charges for services	\$ -	500	500
Miscellaneous revenues	-	57	57
	<u>-</u>	<u>557</u>	<u>557</u>
Total revenues	-	557	557
Expenditures	-	-	-
Excess of revenues over expenditures	-	557	557
Other financing sources	-	-	-
Excess of revenues over expenditures and other financing sources	\$ -	557	557

**MENDON CITY
WATER FUND
SCHEDULE OF REVENUES AND EXPENSES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating revenues:			
Services	\$ 92,000	123,459	31,459
Connection fees	<u>26,400</u>	<u>38,000</u>	<u>11,600</u>
Total operating revenues	<u>118,400</u>	<u>161,459</u>	<u>43,059</u>
Operating expenses:			
Salaries and benefits	5,500	11,428	(5,928)
Current expenses	56,000	49,950	6,050
Depreciation	<u>23,000</u>	<u>23,610</u>	<u>(610)</u>
Total operating expenses	<u>84,500</u>	<u>84,988</u>	<u>(488)</u>
Operating income	<u>33,900</u>	<u>76,471</u>	<u>42,571</u>
Non-operating income (expense):			
Interest income	2,600	1,581	(1,019)
Interest expense	<u>(6,500)</u>	<u>(3,779)</u>	<u>(2,721)</u>
Total non-operating income (expense)	<u>(3,900)</u>	<u>(2,198)</u>	<u>1,702</u>
Net income	<u>\$ 30,000</u>	<u>74,273</u>	<u>44,273</u>

**MENDON CITY SUPPLEMENTAL WATER
AND INSURANCE INFORMATION
JUNE 30, 2005**

Utility Users and Rates

The City water utility serves both residential and nonresidential (Cobblestone) users. As of June 30, 2005 there were the following users:

Residential	332
Nonresidential	45

The monthly rate charged is as follows:

Residential	\$ 24.00 per month
Nonresidential	\$ 33.00 per month

Insurance and Bond Coverage

The City has insurance and bonding policies with effective limits as follows:

<u>Description</u>	<u>Issuer</u>	<u>Policy Limits</u>	<u>Expiration Date</u>
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Insurance:

Comprehensive general liability (no deductible)	Utah Local Govt. Trust	\$ 2,000,000	8/1/2005
Buildings and contents (\$1,000 deductible)	Utah Local Govt. Trust	\$ 815,655	7/1/2005
Auto physical damage (no deductible)	Utah Local Govt. Trust	\$ 2,000,000	8/1/2005

Bonds:

Treasurer	CNA Surety	\$ 46,000	3/12/2006
Mayor	CNA Surety	\$ 46,000	3/12/2006

GOVERNMENTAL AUDIT REPORT

**Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance
with *Government Auditing Standards***

To the Honorable Mayor and City Council
Mendon City
Mendon, Utah

I have audited the financial statements of Mendon City (the City) as of and for the year ended June 30, 2005 and have issued my report thereon dated December 30, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, I noted certain matters that I reported to management of the City in a separate letter dated December 30, 2005.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Company's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I would consider to be material weaknesses.

This report is intended solely for the information of the management of the City, the City Council and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

MATTHEW REGEN, CPA, PC

Matthew Regen, CPA, PC

December 30, 2005

STATE COMPLIANCE REPORT

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LEGAL COMPLIANCE REQUIREMENTS

To the Honorable Mayor and City Council
Mendon City
Mendon, Utah

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mendon City, Utah (the City), for the year ended June 30, 2005, and have issued my report thereon dated December 30, 2005. As part of my audit, I have audited the City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major assistance programs from the State of Utah:

Class C Road Funds (Department of Transportation)
Liquor Law Enforcement Funds (State Tax Commission)

My audit also included test work on the City's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation and Property Tax Limitations
Liquor Law Enforcement
C Road Funds
Special Districts
Other General Compliance Issues
Department of Commerce
Impact Fees and Other Developmental Fees

Management of the City is responsible for the City's compliance with all compliance requirements identified above. My responsibility is to express an opinion on compliance with those requirements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. I believe that my audit provides a reasonable basis for my opinion.

The results of my audit procedures disclosed immaterial instances of noncompliance with requirements referred to above, which are described in the accompanying management letter. I considered these instances of noncompliance in forming my opinion on compliance, which is expressed in the following paragraph.

In my opinion, the City complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ending June 30, 2005.

Matthew Regen, CPA, PC

Matthew Regen, CPA, PC

December 30, 2005

December 30, 2005

To the Honorable Mayor and City Council
Mendon City
Mendon, Utah

In planning and performing my audit of the financial statements of Mendon City (the City) for the year ended June 30, 2005, I observed certain matters related to compliance, internal control structure (other than "reportable conditions") and certain administrative and operating matters. My observations and recommendations are summarized below.

Current Year Recommendations

1. Finding: *Budgetary compliance* - Expenditures exceeded their appropriations in several of the City's departments (General government and public safety).

Recommendation: I recommend that you monitor each department's budget more closely and adopt budget changes as necessary.

Management response: Each department will monitor their budgets more closely and budgets will be adjusted as required.

2. Finding: *Records retention* - The City does not have a formal records retention program.

Recommendation: I recommend that you adopt a formal records retention program in compliance with the State's Government Records Access and Management Act.

Management response: A formal records retention program will be adopted and implemented for the City.

3. Finding: *Purchasing policy* - The City does not have a formal purchasing policy.

Recommendation: I recommend that you adopt a formal purchasing policy in accordance with the State's Uniform Fiscal Procedures Act.

Management response: A purchasing policy will be adopted and implemented for the City.

Prior Year Recommendations

1. **Finding:** *Reportable condition* – Internal controls to identify and report all legal entities of the City have not been adequately designed or placed in operation.

Recommendation: Design and implement procedures to ensure that all legal entities are properly identified and reported in the records of the City.

Management response: All legal entities will be identified in the city policy manual, administration section.

Status: Procedures are in place to properly identify and report all legal entities at June 30, 2005.

2. **Finding:** *Departmental expenditures* – The City used the capital projects fund for general fund expenses.

Recommendation: Monitor the distribution of expenses to the proper fund.

Management response: Recorder will monitor and assure compliance.

Status: All fund expenses were paid out of their proper funds for the year ending June 30, 2005.

3. **Finding:** *Budgetary compliance* - Expenditures exceeded their appropriations in several of the City's departments.

Recommendation: Monitor each department's budget more closely and adopt budget changes as necessary.

Management response: Each department will monitor their budgets more closely and budgets will be adjusted as required.

Status: This remains a finding for the current year. See current year recommendations #1.

4. **Finding:** *Segregation of duties* – Some accounting duties that should be performed by different individuals, to safeguard City assets, are being performed by the same person.

Recommendation: Management oversight should be increased for certain accounting duties.

Management response: The Mayor will be responsible for added oversight.

Status: Management oversight has been increased and the City has adequate segregation of duties at June 30, 2005.

5. Finding: *Purchasing policy* – The City does not have a formal purchasing policy.

Recommendation: Adopt a formal purchasing policy in accordance with the State's Uniform Fiscal Procedures Act.

Management response: A purchasing policy will be adopted and implemented for the City.

Status: This remains a finding for the current year. See current year recommendations #3.

6. Finding: *Records retention* – The City does not have a formal records retention program.

Recommendation: Adopt a formal records retention program in compliance with the State's Government Records Access and Management Act.

Management response: A formal records retention program will be adopted and implemented for the City.

Status: This remains a finding for the current year. See current year recommendations #2.

In conclusion, I appreciate the assistance of all of the city personnel and administrators who were involved in this audit. I would especially like to recognize Daphne Carlson and Paul Cressall for their hard work and cooperation. Thank you for the opportunity to serve you.

Sincerely,

MATTHEW REGEN, CPA, PC



December 30, 2005